

Astec Industries, Inc. (ASTE)

\$42.29 (As of 01/03/20)

Price Target (6-12 Months): **\$36.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 10/30/19)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: D

Growth: A

Momentum: C

Summary

At the end of third-quarter 2019, Astec's total backlog declined 21% year over year to \$244 million. While domestic backlog dropped 29% year over year, international backlog remained flat. This will likely reflect on its fourth-quarter 2019 top line. The late start to the construction season, nearly drought-free conditions and low oil prices reduced demand for Astec's equipment, and is expected to reflect on 2019 results. Given that domestic markets generate around 80% of the company's sales, weak demand in these markets is a major drag on its revenues. Astec's margins are bearing the brunt of competitive pricing pressures as well as input-cost inflation. Also, the FAST Act set to expire in 2020, coupled with the uncertainty regarding the passage of the highway reauthorization bill, remains a concerning factor.

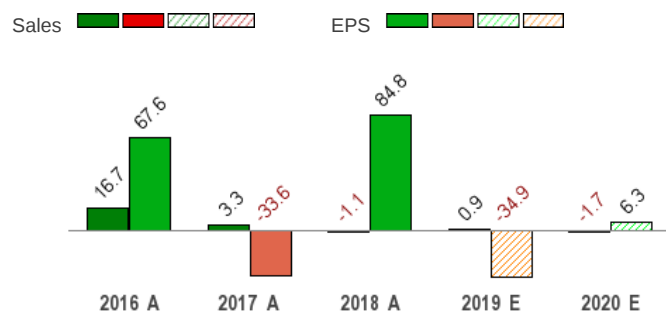
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$43.92 - \$26.20
20 Day Average Volume (sh)	146,751
Market Cap	\$953.5 M
YTD Price Change	0.7%
Beta	1.51
Dividend / Div Yld	\$0.44 / 1.0%
Industry	Manufacturing - Construction and Mining
Zacks Industry Rank	Bottom 14% (216 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-45.2%
Last Sales Surprise	-2.7%
EPS F1 Est- 4 week change	-2.4%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	23.9
P/E F1	20.9
PEG F1	NA
P/S TTM	0.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	319 E	284 E	257 E	315 E	1,162 E
2019	326 A	305 A	256 A	309 E	1,182 E
2018	325 A	273 A	257 A	317 A	1,172 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.73 E	\$0.51 E	\$0.20 E	\$0.72 E	\$2.02 E
2019	\$0.63 A	\$0.36 A	\$0.17 A	\$0.53 E	\$1.90 E
2018	\$0.87 A	\$1.03 A	\$0.30 A	\$0.61 A	\$2.92 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, except sales and EPS estimates, is as of 01/03/2020. The reports text and the analyst-provided sales and EPS estimates are as of 01/06/2020.

Overview

Chattanooga, TN-based Astec Industries Inc. is a leading manufacturer and marketer of road building equipment. The company sells equipment used in each phase of road building, from quarrying and crushing the aggregate to applying the asphalt. Astec also manufactures equipment and components unrelated to road construction, including equipment for the mining, quarrying, construction and demolition industries and port and rail yard operators; gas and oil drilling rigs; water well and geothermal drilling rigs; industrial heat transfer equipment; commercial whole-tree pulpwood chippers; horizontal grinders; blower trucks; concrete plants; commercial and industrial burners; and combustion control systems.

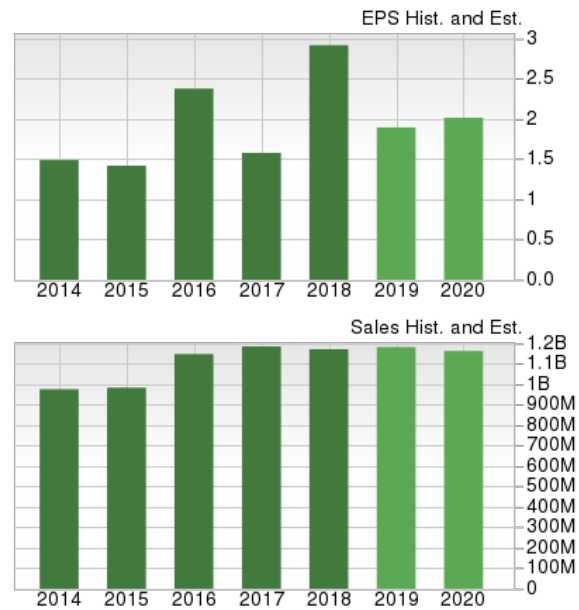
The company's reportable business segments are:

The **Infrastructure Group** (38% of the total revenues in 2018) is made up of five business units. Three of which design, engineer, manufacture and market portable, stationary and relocatable hot-mix asphalt plants, asphalt pavers, material transfer vehicles, milling machines and paver screeds. Two of the business units primarily sell service and install products produced by the manufacturing subsidiaries of the company.

The **Aggregate and Mining Group** (39%) is made up of eight business units focused on designing, manufacturing and marketing heavy equipment and servicing and supplying parts for the aggregate, metallic mining, quarrying, recycling, ports and bulk handling industries. The main purchasers of the group's products are distributors, open mine operators, quarry operators, port and inland terminal operators, highway and heavy equipment contractors and foreign and domestic governmental agencies.

The **Energy Group** (23%) is made up of six business units which design, manufacture and market heaters, drilling rigs, concrete plants, wood chippers and grinders, pump trailers, storage equipment and related parts to the oil and gas, construction, and water well industries, and commercial and industrial burners utilized primarily in commercial, industrial and process heating applications.

Astec has completed several acquisitions in the past, including the buyout of RexCon in October 2017 and Power Flame in August 2016, both of which are now part of the Energy Group.



Reasons To Sell:

- ▼ Astec had been witnessing weakening of demand for equipment and parts in all of its segments, particularly in domestic markets. This is likely to continue in the balance of 2019, which is concerning given that 80% of Astec's sales are generated from domestic markets. Owing to the late start to the construction season, few customers are utilizing existing equipment for the remainder of the construction season. While the nearly drought-free conditions across the country have impacted demand for water well drilling equipment, low oil prices led to lower demand for high pressure pump trailers and process seeders used in oil and gas production. This will likely impact results in fiscal 2019.
- ▼ At third-quarter 2019-end, Astec's total backlog declined around 21% year-over-year to \$244 million as of Sep 30, 2019. Backlog plunged 29%, 27% and 12% in the Energy, Aggregate and Mining Group and Infrastructure Group, respectively. While domestic backlog slumped 29% year over year to \$158 million as of third-quarter 2019-end, international backlog remained flat at \$85.8 million. This indicates that fourth-quarter 2019 revenues are likely to be impacted.
- ▼ Astec utilizes steel as a major raw material to manufacture products. The company is facing input cost inflation, particularly of steel owing to the imposition of tariffs. This is denting the company's margins. Given the competition, it might not be possible for Astec to raise prices to combat the raw material cost inflation. In addition to higher raw material prices, lower volume and competitive pricing pressures are also weighing on Astec's margins.
- ▼ In December 2015, the U.S. government enacted the Fixing America's Surface Transportation (FAST) Act, a five-year \$305-billion highway-funding bill to fund highway and bridge projects. Though this provides stability, the funding levels have not increased much. It is set to expire in September 2020. The highway reauthorization bill, America's Transportation Infrastructure Act of 2019, was advanced by a Senate committee in July. The bill authorizes \$287 billion over a span of five years to maintain and repair America's roads and bridges. It would increase spending by 27% over FAST Act. However, there is uncertainty whether the bill will advance at this point. This remains a concern.

Astec's results will bear the brunt of weak domestic markets, lower backlog, lower volume, competitive pricing pressures and input cost inflation owing to tariffs on imported steel.

Risks

- Astec anticipates savings from strategic sourcing improvement to grow through the balance of the year as it completes engineering validation of new vendors and components, and depletes inventory of existing components and material. Astec's new sales and operational planning procedures are leading to changes in its bill schedules and the company expects higher cash generation moving forward due to better management of building equipment and controlling inventory to match demand. Astec is actively aligning business to meet demand. The company also introduced its strategy for profitable growth – Simplify, Focus and Grow. The implementation of the Sales and Operations Planning process will help the company in dealing with the changing market scenario.
 - Astec remains committed toward improvement of its part sales volume over the long term. It also intends to improve competitive part sales and service sales. Majority of its customers in the United States have been experiencing a stable product market, and the company remains focused on selling existing and new products. The company also continues to focus on growing its international sales through the establishment of new regional international sales offices and the new products for international customers. Astec remains committed to developing new products and all the three groups are poised to launch new or improved products by the end of this year, which will provide it with a competitive edge. Astec remains well poised in the long term backed by the global population growth, increased urbanization and the need to repair the ageing infrastructure.
 - Astec has sold its Hazlehurst, GA, wood pellet plant, which marks an end to its involvement in the wood pellet plant business. The company had forayed into the wood pellet industry in 2012 in order to diversify into new areas at a time when road building and aggregate industries were at a low. However, it was not a good fit for the pellet industry owing to size, complexity and time frames associated with fabrication, installation and commissioning of wood pellet plants. Consequently, it was a prudent move to exit from the industry.
 - The company also decided to discontinue operations at its subsidiary in Germany, Astec Mobile Machinery, as it did not generate expected results. The company expects the wind down of this business to be completed in 2019. Going forward, this will lead to an annual saving of \$1 million. Astec has also consolidated its Dillman operation into Astec Incorporated. With these actions, the infrastructure group will bolster growth, moving forward. Astec already has a dominant share of the asphalt plant market in North America and plans to introduce two new entry-level asphalt plants in 2019 that are designed to better meet the needs of the international market and improve its competitiveness. Additionally, it will be introducing new paving equipment for both the domestic and international markets. The launch of new products from this group in 2019 will drive the segment's revenues.
-

Last Earnings Report

Astec Q3 Earnings Miss Estimates on Lower Demand

Astec Industries third-quarter 2019 earnings per share of 17 cents missed the Zacks Consensus Estimate of 31 cents by a margin of 45%. The figure also declined 43% from the prior-year quarter, thanks to softer market conditions.

Including one-time items, earnings per share in the third quarter was 13 cents, reflecting a 57% year-over-year drop from 30 cents in the year-ago quarter.

Astec reported revenues of \$255.8 million in the quarter, down 0.3% from the year-ago quarter.

The top line missed the Zacks Consensus Estimate of \$263 million. The company's domestic sales decreased 2% year over year to \$190 million while international sales rose 6% year over year to \$66 million.

Cost of sales went up 3% year over year to \$204 million. Adjusted gross profit came in at \$51.9 million, down from \$58.3 million in the year-ago quarter. Gross margin was 20.3% in the reported quarter compared with 22.7% in the prior-year quarter. Selling, general, administrative and engineering (SG&A) dropped 7% year over year to \$48 million. The company reported adjusted operating profit of \$4.22 million, declining 42% from the prior-year quarter figure of \$7.23 million.

Segment Performance

Revenues for the Infrastructure Group segment improved 1.3% to \$88 million from the year-ago quarter. The segment reported an operating loss of \$0.4 million compared with an operating profit of \$4.8 million in the year-ago quarter.

Total revenues for the Aggregate and Mining Group segment went down 2% year over year to \$99.6 million. Operating profit slumped 36% year over year to \$5.8 million.

The Energy Group segment's total revenues increased 0.2% year over year to \$68 million. The segment reported operating profit of \$5.1 million, up 54% from \$3.3 million in the year-ago quarter.

Financial Position

Astec reported cash and cash equivalents of \$26.3 million at the end of third-quarter 2019, up from \$25.7 million at the end of the prior-year quarter. Receivables declined to \$114 million as of Sep 30, 2019, from \$128 million as of Sep 30 2018. Inventories were at \$357 million as of third-quarter 2019-end, compared with \$429 million as of second-quarter 2018-end.

The company's total backlog declined around 21% year-over-year to \$244 million as of Sep 30, 2019. Backlog plunged 29%, 27% and 12% in the Energy, Aggregate and Mining Group and Infrastructure Group, respectively. While domestic backlog plunged 29% year over year to \$158 million as of third-quarter 2019-end, international backlog remained flat at \$85.8 million.

Astec is actively aligning the business to meet the current demand. The company also introduced its strategy for profitable growth – Simplify, Focus and Grow. The implementation of the Sales and Operations Planning process will help the company in dealing with the changing market scenario. Meanwhile, its international strategy will help in accelerating revenue growth.

Quarter Ending **09/2019**

Report Date	Oct 29, 2019
Sales Surprise	-2.73%
EPS Surprise	-45.16%
Quarterly EPS	0.17
Annual EPS (TTM)	1.77

Recent News

Astec Appoints Rebecca Weyenberg as Chief Financial Officer – Nov 5, 2019

Astec announced that Rebecca Weyenberg will join the company as Chief Financial Officer. In this role, she will lead finance strategy, budgeting and planning, accounting, and financial reporting. Ms. Weyenberg succeeds David Silvius.

Valuation

Astec's shares are up 21.4% over the trailing 12-month period. Stocks in the Zacks Manufacturing – Construction and Mining industry and the Zacks Industrial Products sector are up 15.3% and 21.0% in the past year, respectively.

The S&P 500 index has gained 25.7% in the past year.

The stock is currently trading at 20.93X forward 12-month earnings, which compares with 13.82X for the Zacks sub-industry, 18.14X for the Zacks sector and 18.71X for the S&P 500 index.

Over the past five years, the stock has traded as high as 39.08X and as low as 9.01X, with the 5-year median being 17.90X.

Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$36 price target reflects 17.82X Forward 12-month earnings.

The table below shows summary valuation data for ASTE:

Valuation Multiples - ASTE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	20.93	13.82	18.14	18.71
	5-Year High	39.08	30.83	19.9	19.34
	5-Year Low	9.01	9.47	12.59	15.17
	5-Year Median	17.9	16.78	16.54	17.44
P/S F12M	Current	0.82	1.3	1.85	3.47
	5-Year High	1.47	1.64	2.74	3.47
	5-Year Low	0.49	0.71	1.51	2.54
	5-Year Median	0.9	1.11	1.96	3
EV/EBITDA TTM	Current	16.25	8.12	17	11.99
	5-Year High	17.41	12.79	17.43	12.86
	5-Year Low	7.07	6.05	10.89	8.48
	5-Year Median	12.63	8.67	14.71	10.67

As of 01/03/2020

Industry Analysis Zacks Industry Rank: Bottom 14% (216 out of 252)



Top Peers

Caterpillar Inc. (CAT)	Neutral
Cummins Inc. (CMI)	Neutral
CNH Industrial N.V. (CNHI)	Neutral
Deere & Company (DE)	Neutral
John Bean Technologies Corporation (JBT)	Neutral
Lindsay Corporation (LNN)	Neutral
The Manitowoc Company, Inc. (MTW)	Neutral
Terex Corporation (TEX)	Neutral

Industry Comparison Industry: Manufacturing - Construction And Mining				Industry Peers		
	ASTE Underperform	X Industry	S&P 500	CAT Neutral	HEES Neutral	MTW Neutral
VGM Score	B	-	-	D	A	C
Market Cap	953.47 M	1.65 B	23.66 B	82.04 B	1.16 B	610.12 M
# of Analysts	3	4.5	13	9	3	6
Dividend Yield	1.04%	1.59%	1.79%	2.78%	3.40%	0.00%
Value Score	D	-	-	B	A	C
Cash/Price	0.03	0.10	0.04	0.10	0.01	0.11
EV/EBITDA	-16.25	8.51	13.88	8.51	5.16	157.90
PEG Ratio	NA	1.47	1.99	1.58	1.01	1.13
Price/Book (P/B)	1.54	2.42	3.36	5.47	3.95	0.98
Price/Cash Flow (P/CF)	10.13	7.85	13.62	9.00	3.68	10.08
P/E (F1)	20.84	13.34	18.74	13.86	11.98	11.29
Price/Sales (P/S)	0.79	0.79	2.67	1.49	0.86	0.32
Earnings Yield	4.78%	7.50%	5.32%	7.22%	8.34%	8.86%
Debt/Equity	0.00	1.46	0.72	1.71	3.22	0.55
Cash Flow (\$/share)	4.18	3.91	6.94	16.49	8.80	1.71
Growth Score	A	-	-	D	A	D
Hist. EPS Growth (3-5 yrs)	8.26%	10.20%	10.56%	23.01%	16.09%	-30.76%
Proj. EPS Growth (F1/F0)	6.33%	-9.51%	7.41%	-1.26%	6.86%	-17.76%
Curr. Cash Flow Growth	52.34%	37.66%	14.83%	35.57%	-1.37%	95.88%
Hist. Cash Flow Growth (3-5 yrs)	9.20%	6.65%	9.00%	6.65%	11.28%	-27.62%
Current Ratio	3.06	1.91	1.23	1.44	0.69	1.91
Debt/Capital	0.12%	59.43%	42.92%	63.05%	76.29%	35.34%
Net Margin	-0.53%	-0.07%	11.08%	10.99%	6.71%	-2.17%
Return on Equity	6.62%	29.17%	17.10%	42.51%	33.21%	10.11%
Sales/Assets	1.42	1.18	0.55	0.70	0.68	1.18
Proj. Sales Growth (F1/F0)	-1.64%	-4.58%	4.20%	-4.58%	2.38%	-6.71%
Momentum Score	C	-	-	D	A	B
Daily Price Chg	0.07%	-1.20%	-0.61%	-1.39%	-2.03%	-1.03%
1 Week Price Chg	-0.50%	-0.12%	0.13%	0.48%	-0.24%	1.16%
4 Week Price Chg	10.79%	7.83%	2.60%	5.24%	1.35%	10.43%
12 Week Price Chg	43.11%	26.63%	8.87%	20.99%	18.28%	61.31%
52 Week Price Chg	31.38%	16.64%	29.34%	22.16%	57.39%	17.26%
20 Day Average Volume	146,751	155,853	1,603,615	2,341,796	164,955	248,184
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-2.42%	0.00%	0.00%	-0.77%	0.00%	2.34%
(F1) EPS Est 12 week change	-16.32%	-14.12%	-0.57%	-10.73%	3.98%	-11.91%
(Q1) EPS Est Mthly Chg	-1.36%	-1.36%	0.00%	-1.01%	-2.22%	42.86%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	A
Momentum Score	C
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.